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FM AMEMBASSY PRETORIA
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RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHJO/AMCONSUL JOHANNESBURG 9088
RUEHTN/AMCONSUL CAPE TOWN 6742
RUEH DU/AMCONSUL DURBAN 0860

UNCLAS SECTION 01 OF 03 PRETORIA 000707

DEPT FOR AF/S/; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR TRINA RAND
USTR FOR JACKSON

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)
PGOV, SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER APRIL 9, 2009
ISSUE

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¶1. (U) Summary. This is Volume 9, issue 15 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Recession Rules Out Post-Election Policy Shift; Mboweni and Manuel Agree on Rate Cuts
 - Significant Rise in Reserves
 - Treasury Will Not Call the Shots
 - South Africa Ponders a Protectionist Response to Economic Crisis
 - South African Logistics Costs Continue to Mount
 - Minister of Communication's Death Leads to Leadership Void
 - Sasol Signs Gas-to-Liquids Agreement with Uzbekistan
 - South Africa May Invest in Battery-Powered Car
- End Summary.

Recession Rules Out Post-Election Policy Shift;
Mboweni and Manuel Agree on Rate Cuts

¶2. (U) South African Reserve Bank (SARB) Governor Tito Mboweni ruled out shifts in economic policy regardless of the election's outcome on April 22. South Africa might have slipped into a recession in the first quarter of this year, warned Mboweni, adding that optimism about a quick recovery in the global economy might be misplaced. "Whatever party comes to power after the elections will have to confront this reality, and I'm very sorry to say there is very little room for maneuver," he commented. Mboweni urged adherence to the Group of 20's agenda of fiscal and monetary stimulus and stricter financial regulation. More cuts in interest rates are on the way, Mboweni hinted. Trevor Manuel echoed that sentiment this week when he told an academic forum that there was "plenty of room" for further cuts in interest rates. Manuel rarely comments on monetary policy because the SARB makes policy decisions independent of government. (Business Day, April 8, 2009)

Significant Rise in Reserves

¶3. (U) South Africa's net gold and foreign exchange reserves

increased from \$33.151 billion in February to \$33.458 billion in March, suggesting the SARB used the opportunity of a stronger rand during the month to boost its reserves. The SARB attributed the rise in reserves to "usual foreign exchange operations" and valuation adjustments. SARB data showed the rand had strengthened from R10.05/\$ in February to R9.49/\$ in March. South Africa's net reserves rose after the SARB brought a long-standing negative position into balance in 2004 with the elimination of its loss-making forward foreign exchange book. Even with the increase, the SARB's reserves lag behind those of other emerging economies. (Fin24, April 8, 2009)

Treasury Will Not Call the Shots

¶4. (U) The prospective African National Congress (ANC) government would create a Central Planning Commission to decide when, where, and how much money to spend, announced transitional team leader Collins Chabane. Establishment of the commission would signal an end to the days of a powerful National Treasury. "Departments won't have to go cap in hand to Treasury," Chabane commented. The commission would set priorities and instruct the Treasury to find money, added Chabane. "It will not be the role of the Treasury to Qmoney, added Chabane. "It will not be the role of the Treasury to say it is expensive," he remarked. The role of the Treasury will be to identify the available resources that the state could use to implement its programs, according to Chabane. The commission would be situated within the executive office and would be led by Jacob Zuma. The ANC is also considering scrapping deputy ministries in some departments while increasing the number in others, depending on workload. (The Sunday Independent, April 5, 2009)

South Africa Ponders a Protectionist
Response to Economic Crisis

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¶5. (U) ANC President Jacob Zuma has promised a "smooth transition" after a new administration takes office in May. Speaking at a business breakfast in Johannesburg, Zuma said that underperforming ministers would be removed from office, some cabinet departments would be split, and a planning commission would be established in the Presidency to oversee policy. Responding to a question on the mandate of the South African Reserve Bank, Zuma said: "The role of the Reserve Bank will continue to be the same. The Bank has been doing very well. I don't think it will change." While acknowledging flaws in the implementation of affirmative action, Zuma said he saw no need for a "sunset clause" for black employment targets. (Business Day, April 1, 2009)

South African Logistics Costs
Continue to Mount

¶6. (U) The South African government would consider reversing some of the tariff cuts that it has pursued for the last 15 years, suggested Deputy Trade and Industry Minister Dr. Rob Davies. The reversals could be necessary to mitigate against some of the imbalances created by bail-outs being deployed in other countries to salvage distressed firms and industries. "People are saying that they don't want the world to move into protectionism - and at some sort of level we can agree to that. "But let's not go into this situation starry-eyed and as idealists. Let's not go into a multilateral disarmament process and come out unilaterally disarmed," Davies quipped. While the developed world might not be using tariff policy, Davies argued, the "massive" bail-outs were certainly linked to messages about "buying local." South Africa would likely direct some additional resources to support industrial sectors, but it could not compete with the quantum of money being dispersed elsewhere, Davies cautioned. He counseled against committing not to raise tariffs where South Africa has "WTO legal space" to do so. South Africa could not "sit by and let all these subsidies, which will have the same effect as a tariff, proceed" without considering

responding by using all policy instruments at its disposal, urged Davies. Such "boldness" would need to be backed by strong evidence to justify how a tariff increase would be effective in enabling industries to develop over the long term, he stressed. (Engineering News, April 7, 2009)

Minister of Communication's
Death Leads to Leadership Void

17. (U) Minister of Communications Ivy Matsepe-Casaburri died of natural causes on April 6. Government Spokesperson Thabo Masebe said Matsepe-Casaburri had not been at work for a long time because of her health. President Kgalema Motlanthe expressed his condolences and said Matsepe-Casaburri was "an outstanding leader and servant of the people of South Africa." Her death leaves a leadership void at the Department of Communications (DOC) with the recent resignation of Director-General Lyndall Shope-Mafole. Shope-Mafole was released from her DOC contract in February to pursue a leadership role in the opposition COPE party. Under Matsepe-Casaburri's leadership, the DOC had been criticized for hampering efforts to increase liberalization in the ICT sector. DOC interventions delayed the Independent Communications Authority of South Africa (ICASA) from issuing individual electronic communications network service (I-ECNS) licenses required for independent operators to develop national networks. A Pretoria High Court ruling in favor I-ECNS operators finally paved the way for ICASA license issuance in January 2009. (Department of Communications, April 7, 2009 and Engineering News, January 22, 2009)

Sasol Signs Gas-to-Liquids
Agreement with Uzbekistan

18. (U) Petrochemicals giant Sasol signed a preliminary agreement with Uzbekneftegaz, the national oil and gas company of Uzbekistan,

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and Malaysia's Petronas for the development and implementation of a gas-to-liquids (GTL) project in Uzbekistan. The three companies also signed a memorandum of understanding for mutual cooperation in the oil and gas industry in Uzbekistan. Sasol's technology would now be deployed to produce transportation fuels from Uzbekistan's abundant domestic natural gas reserves. "The wealth of gas resources within Uzbekistan makes this an ideal location for a GTL facility" commented Sasol General Manager Lean Strauss, who noted that Uzbekistan has about 60 trillion cubic feet of natural gas reserves. The GTL project would not only enhance Uzbekistan's fuel production, but would also make a significant contribution to the economy of the country through foreign direct investment and job creation, Sasol noted. Sasol and Petronas were also exploring other areas of cooperation in the Uzbekistan oil and gas industry. (Engineering News, April 8, 2009)

South Africa May Invest in
Battery-Powered Car

19. (U) South Africa may invest in the Joule, the country's first battery-powered car. Cabinet has approved the establishment of an interagency committee to assess an investment in the Joule. The committee will include representatives from the Departments of Environmental Affairs and Tourism, Minerals and Energy, Science and Technology, Trade and Industry, Transport, and Treasury. The Joule would become Africa's first locally manufactured and assembled zero-emissions vehicle. South African automotive designer Keith Helfet designed the six-seater multi-purpose vehicle, which would be powered by a 220-volt battery. The battery would run for approximately 200 kilometers before requiring recharging. The Gauteng provincial government has reportedly expressed an interest

in placing the first major order for Joules. (BuaNews, March 19,
2009)